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**ATTORNEYS FOR CALIFORNIA
STATE LANDS COMMISSION**

**IN THE UNITED STATES BANKRUPTCY COURT FOR THE
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

IN RE:	§	
	§	
RINCON ISLAND LIMITED PARTNERSHIP	§	CASE NO. 16-33174-HDH
	§	
	§	CHAPTER 11
DEBTOR.	§	
	§	
	§	

**NOTICE OF DEBTOR'S NON-COMPLIANCE
WITH COURT-ORDERED BOND REQUIREMENT**

The State of California by and through its undersigned attorneys, and the California State Lands Commission (the “**Commission**”), a creditor and party in interest in the bankruptcy case of Rincon Island Limited Partnership (the “**Debtor**”), hereby notifies the Court of the Debtor’s failure to comply with the Court’s Order increasing the Debtor’s bond in favor or the Commission to \$10,380,357, and in support thereof respectfully shows as follows.

1. On March 3, 2017 the Court entered an order granting the Debtor's motion to assume oil-and-gas lease PRC 410 and other related agreements [Docket No. 185] (the "**Lease Assumption Order**"). But the assumption was conditional, allowing the Debtor to assume the lease only:

on the condition that the Debtor provides the required bond, which the Court determined to be set at \$9,980,357, **bringing the total security to \$10,380,357** required under the 1995 Lease Amendment, which is comprised of the increased bond of \$9,980,357 plus the \$400,000 guaranty, which may be provided in the form of a bond. The form and type of the additional bond in the amount of \$5,380,357 (which is the difference between the \$9,980,357 set by the Court and the existing \$4,600,000 bond) will be in accordance with the Public Resources Code of the State of California.

Lease Assumption Order at ¶ 2 (emphasis added).

2. Due to the Debtor's failure to timely increase the required bond in accordance with the Lease Assumption Order, on May 1, 2017 the Commission filed a motion for relief from the automatic stay [Docket No. 217] (the "**Lift-Stay Motion**"). On Debtor's request, the Court continued the preliminary hearing on the Lift-Stay Motion from May 24 to June 13, 2017.

3. At the June 13, 2017 preliminary hearing, the Commission, following discussions with secured creditor UBS, agreed to forego its request for relief from the stay and instead asked the Court to authorize the United States Trustee to appoint a Chapter 11 Trustee. The Court agreed and ruled from the bench that if the Debtor did not comply with the Court's Lease Assumption Order—requiring the Debtor to provide a bond in the total amount of \$10,380,357—on or before June 15, 2017, the United States Trustee shall appoint a Chapter 11 Trustee without further order of the Court.

4. On June 15, 2017 the Debtor filed a "Notice of Increased Bond" [Docket No. 242] (the "**Bond Notice**") informing the Court of the Debtor's increase of its bond to only \$9,650,000—\$730,357 *less* than that required by the Lease Assumption Order. The Bond Notice offers no

explanation for the Debtor's failure to fully comply with the Court's orders regarding the required bond amount, other than that \$9,650,000 is the "maximum bonding available issued by AIG on behalf of Rincon Island Limited Partnership." Bond Notice at Exhibit A.

5. It is beyond dispute that the Debtor has failed to comply with the Court's orders regarding the bond. Accordingly, and in accordance with this Court's June 13, 2017 ruling, the Commission expects that the United States Trustee will proceed with the appointment of a Chapter 11 Trustee in this case with all deliberate speed.

Dated: June 16, 2017

Respectfully submitted,

/s/Judith W. Ross

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